



ELA March 2007 Conference
Financing America's Hospitals Today

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Section 242 Mortgage Insurance for Hospitals Overview

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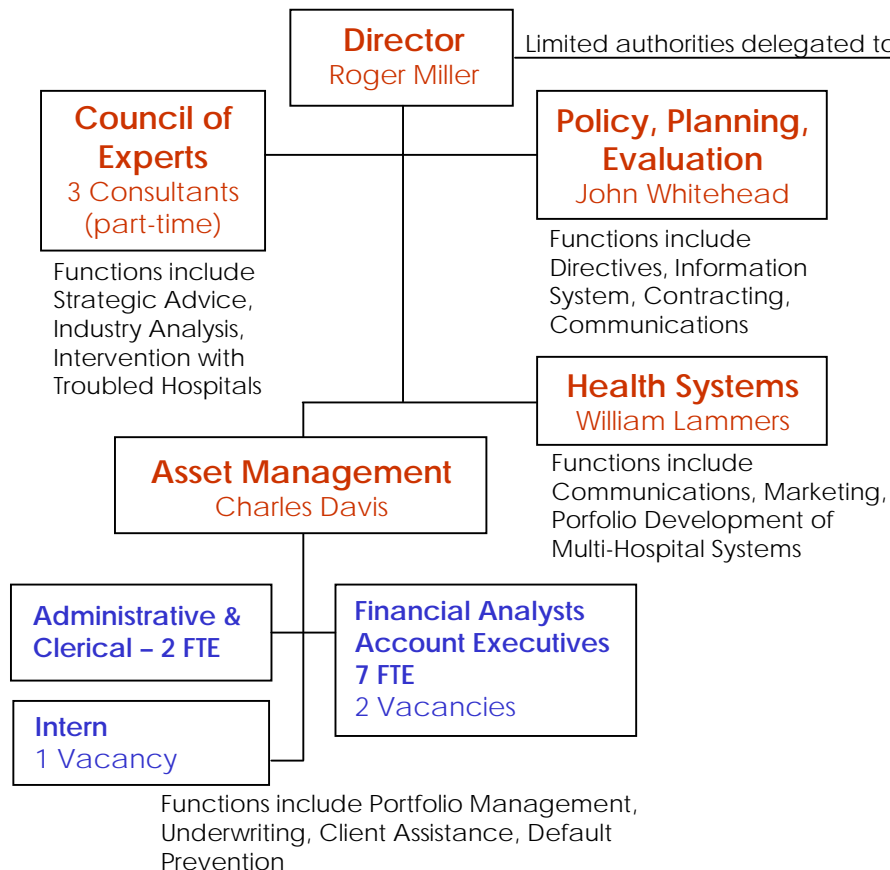
Mission

- To support affordable financing of needed hospital projects by reducing the cost of capital through credit enhancement
 - ❖ Supports HUD's community development mission
 - ❖ Improves access to quality and cost-effective healthcare
 - ❖ Fills unique role not served by private market

Organization Chart

HUD Headquarters Housing

Office of Insured Health Care Facilities



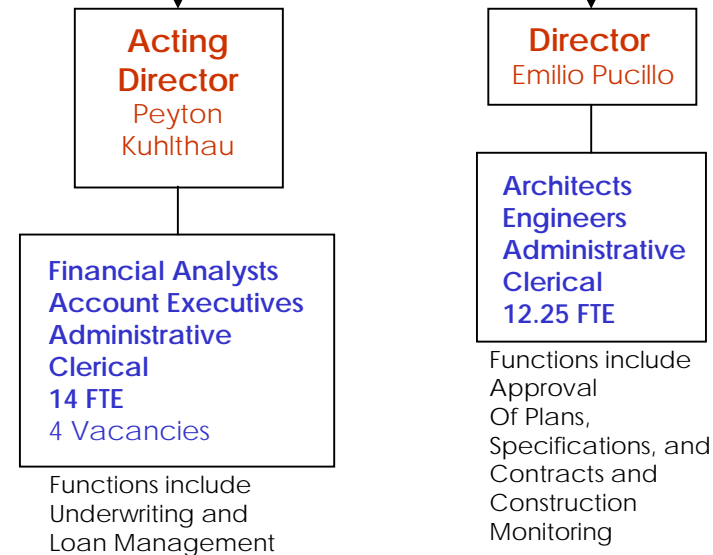
HHS

Health Resources and Services Administration Healthcare Systems Bureau

Division of Facilities and Loans

Division of Engineering Services

Limited authorities delegated to HHS under interagency agreement



03-07-07

Limited Field Office Role

- Receives all fees and assigns FHA project number
- Provides prior participation and environmental clearances
- Performs initial and final closings
- Reviews legal documents

Program Performance

- 351 Loan Commitments since 1968 totalling \$12.8 billion in 42 states and Puerto Rico
- Most hospitals gained financial strength and refinanced out of the portfolio
- Low default rate – program is self-sustaining
- 78 loans insured today for \$5.7 billion principal balance outstanding

FHA-Insured Hospitals Are Among America's Best According to U.S. News and World Report

- The New York Presbyterian Hospital
 - ❖ Ranked #6 overall, received top ratings in 11 out of 16 specialties
- The Hospital for Special Surgery
 - ❖ Ranked #2 and #3 in the nation for orthopedics and rheumatology, respectively.
- Montefiore Medical Center
 - ❖ Received high marks in rehabilitation services
- Medical University of South Carolina
 - ❖ Recognized for its treatment of patients with digestive disorders

Government Accountability Office Reports

- 1996 Report

- ❖ "The large loan amounts in New York pose risks to future stability of the program..."
- ❖ "Congress may wish to explore options for reducing the program's risk by limiting exposure in a particular state and capping mortgage insurance amounts..."

- 2006 Report

- ❖ "FHA has goals to diversify the hospital insurance portfolio and has made efforts to do so..."



New York State Vs. Other States FHA Section 242 Portfolio (March 2007)

- In 2000, New York State Hospital mortgage balances represented 89 percent of total FHA Portfolio

	UPB	Percent
New York State	\$3.103 BIL	54.8%
Other States	\$2.556 BIL	45.2%
Total	\$5.659 BIL	100.0%
	Number of Loans	Percent
New York State	43	55.13%
Other States	35	44.87%
Total	78	100.00%

March 2007

Hospital Business

Since 2005



03-07-07

Objectives

- Quality Underwriting
- Claim Prevention
- Continual Improvement

Continual Improvement

- Geographic Diversification
- Marketing
- Website
- Adding Talented Staff
- Council of Experts
- Applicant's Guide
- Design/Build Construction
- Streamlining Application Process

Streamlining Application Process

- Reducing requested information
- Improving communication with application checklist
- Condensed and more focused credit committee report
- Fast track review for financially strong hospitals

FY 2006 Results

- Nine deals totaling \$943 million
- Five of nine done in less than 120 days
 - ❖ Previous record 122 days
- Seven new loans issued outside of New York
- Seven commitments in seven days in seven states



Planning a hospital construction project? Shopping for **AFFORDABLE** financing?

A lender insured by the Federal Housing Administration can make it happen!

U.S. government backing of your hospital's debt enhances your creditworthiness:

- Your resulting AA to AAA credit rating = lower interest rates
- Lower interest rates = more spending power to build, modernize, expand, refinance and buy equipment



(Above) University of New Mexico Children's Hospital, Albuquerque, NM
Mortgage amount: \$183.4 million
(Top) Sinai Health System, Chicago, IL
Mortgage amount: \$98 million



Rio Grande Hospital (Critical Access), Del Norte, CO
Mortgage amount: \$10 million

Other FHA advantages:

- New processing policies enabling faster turnarounds
- Can be used in conjunction with tax-exempt bond issues and Ginnie Mae securities
- A record of success insuring more than 320 hospital mortgages in 42 states and Puerto Rico

"We are deeply grateful to FHA for supporting our goal to build this world-class hospital facility."

—Stuart Smith, Executive Director
Medical University Hospital Authority,
Charleston, SC

"FHA has financed our growth, and our growth has created our success. It has been a wonderful partnership through the years, and I am in your debt."

—Spencer Foreman, M.D., CEO
Montefiore Medical Center, Bronx, NY

"Please thank your staff for processing our loan application in 79 days and for their professionalism.... I recommend rural hospitals seriously consider FHA mortgage insurance."

—Arlene Horns, CEO
Melissa Memorial Hospital, Holyoke, CO



For more information call (202) 708-0614 x2003
or visit us online at www.fha.gov/hospitals

Modern Healthcare Ad, December 2006



Program includes small community hospitals...





...and large
urban hospitals.

Value of FHA 242 Insurance

- Example: 45-year old Critical Access Hospital needed total replacement
- Cost of new facility: \$20 million
- Interest rate differences:
 - ... without Sec. 242 insurance 9% (est.)
 - ... with Sec. 242 insurance 5.5%

First year interest savings:

\$650,000

25-year savings:

over \$8,200,000

Loan Characteristics

- Loans can be for new construction, purchase, rehabilitation, some refinancing (no more than 80%)
- Maximum loan to value ratio is 90%
- Loan term is 25 years with straight amortization
- Eligible hospitals:
 - ❖ Not-for-profit
 - ❖ Municipal (government-owned)
 - ❖ For-profits

Is the Project a Candidate for FHA Financing?

- Eligibility
- Market Need
- Financial Feasibility

Process Steps

1. Self assessment
2. Initial contact with HUD or HHS
3. Preliminary HUD assessment
4. Pre-application meeting
5. Application and feasibility study
6. Application review by HUD/HHS
7. HUD decision
8. Insurance commitment
9. Initial closing
10. Construction
11. Final closing

Thank You

